

MAACC
Manitoba Agricultural Credit Corporation



2003-2004 ANNUAL REPORT

WORKING WITH YOU TO BUILD YOUR FUTURE

TABLE OF CONTENTS

Corporate Values	1
Transmittal Letters	2
Message from the Chair & CEO	4
Organization Chart	6
Operating Philosophy	7
Operational Background	8
Year in Review	9
Strategic Direction	11
Summary of Operations	18
Direct Lending Program	19
Emergency/Special Assistance Programs	21
Guaranteed Loan Programs	22
Property Management	23
Short Term Leases	23
Land Lease Option Program	23
Lending Portfolio	24
Guarantee Portfolio	24
Program Participation By Sector	25
Financing the Corporation	26
Management Report	27
Auditor's Report	28
Financial Statements	29



CORPORATE VALUES

OUR VISION:

A sustainable Manitoba agricultural economy

OUR PROMISE:

To participate in meeting the financial requirements of the agricultural community, thereby contributing to a vibrant Manitoba economy that is globally competitive

OUR COMMITMENT:

To facilitate acquisition of credit for Manitoba farmers, especially young, beginning, low-equity farmers or those considering higher risk farm diversification, in establishing a viable farm operation

To provide the vehicle through which the Province of Manitoba can implement financial agricultural programs, determined by the government of the day as essential for the long-term viability of agricultural production, agricultural producers and rural development

To continue to develop MACC's relationship with private lending institutions in order to provide Manitoba farmers with access to credit under reasonable terms and conditions

To administer some of the Province's emergency and special assistance programs



**Minister of Agriculture, Food
and Rural Initiatives**

Room 165
Legislative Building
Winnipeg, Manitoba, CANADA
R3C 0V8

The Honourable John Harvard
Lieutenant-Governor of Manitoba
235 Legislative Building
Winnipeg, Manitoba
R3C 0V8

Your Honour:

I am pleased to submit the Annual Report of the Manitoba Agricultural Credit Corporation for the period of April 1, 2003 to March 31, 2004.

Yours truly,

A handwritten signature in cursive script that reads "Rosann Wowchuk".

Rosann Wowchuk
Minister

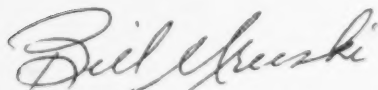


The Honourable Rosann Wowchuk
Minister of Agriculture, Food and Rural Initiatives
165 Legislative Building
Winnipeg, Manitoba
R3C 0V8

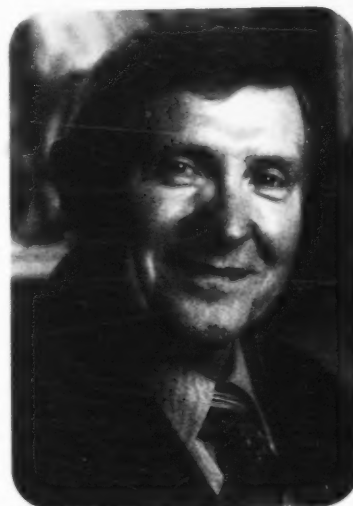
Dear Mrs. Wowchuk:

On behalf of the Board of Directors, I am pleased to submit the Annual Report of the Manitoba Agricultural Credit Corporation for the fiscal year ending March 31, 2004.

Yours truly,



Bill Uruski
Chair



MESSAGE FROM THE CHAIR & CEO

Looking back on the past year and moving forward to a new one, we have a chance to reflect on the opportunities and obstacles of 2003-2004. Manitoba has always been able to compete on world markets with safe products of high quality while ensuring a reliable supply. Manitoba producers and processors are facing many challenges. Most recently, trade issues with the United States involving the Canadian Wheat Board and the hog industry, the U.S. Bio-terrorism Act and Country Of Origin Labeling are all of considerable concern to Manitoba producers.

The Bovine Spongiform Encephalopathy (BSE) situation and its effect on Manitoba's ability to export live cattle, beef and other ruminant products to the U.S. and other various world markets has put that industry sector in a crisis situation. The trickle-down effect of the BSE situation has impacted rural communities, agri-businesses, Manitoba, and Canada as a whole. Diversification, which usually has an income stabilizing effect, did not provide much relief. Many agricultural commodities concurrently experienced varying degrees of difficulty, making it hard for producers to weather the overall adverse market conditions. However, Manitoba producers, with the support of industry partners such as MACC, have shown they have the capacity to deal with market challenges and adversity. The Manitoba livestock industry has come to realize the need to develop markets and products that can trade worldwide with less reliance on U.S. trade.

With MACC strategically located throughout rural Manitoba, we are well positioned to effectively deliver government programs using existing staff and resources. We can relate to producers' situations because we live, work and in some cases farm right along with them in their communities. MACC, as an element of the rural landscape, benefits producers through this awareness

and accessibility. Though the livestock industry is going through a series of difficult adjustments, a stronger industry will emerge built on existing foundations. MACC is there to provide support to this and other sectors through various loan and guarantee programs, while remaining accountable to the Manitoba taxpayer.

Border integration (not border neutrality) and increased BSE testing to protect human and animal health will be positive steps in developing the new livestock industry. Manitoba producers are attempting to take part in their own destiny with plans for developing a Manitoba beef slaughter plant. The true impact of the BSE crisis will be evidenced by what kind of livestock industry we hand to the next generation of producers. MACC's mandate allows us to provide financing with reasonable terms not only to the current generation of operators but also for new producers to aid in the sustainability and viability of Manitoba farms.

The PMU industry also received a major upset this year with Wyeth Organics severely reducing or eliminating production contracts. MACC has reviewed the situation of our affected PMU clients and established repayment options. MACC is working with these clients in light of their need to change their farm operations



Frieda Krpan

Sandy Yanick
Vice-Chair

Ron Kostaszy

Joe Eichler

Goldwyn Jones

Bill Uruski
Chair

Board of Directors

Missing: Robert Friesen

from PMU into production of other agricultural commodities. Core production for the North American PMU industry remains in Manitoba and will continue to be supported by MACC as required.

As a result of MACC's commitment to constant review and analysis of its programming, MACC is able to continue to fill financing gaps in credit availability while ensuring that its programming reaches the target groups of young, beginning and diversifying producers.

A new campaign strategy is underway to promote awareness of MACC products. MACC's brochure and trade show displays have received a new look and are incorporated in this campaign to position MACC as a financing alternative for young and beginning farmers, producers diversifying or expanding their operations and for family farms involved in intergenerational farm transfers.

In 2003, MACC introduced an Employee Recognition Program to further express appreciation for the valuable contributions that its staff makes to the corporation and the agricultural community. Through this program, employees receive recognition as they reach certain milestones in their careers with MACC. In the program's

inaugural year, 75% of staff were honoured for service periods ranging from five to thirty years. In fact, 40% have each dedicated in excess of 10 years to the corporation.

In 2003, all MACC staff were given the opportunity to participate in an employee survey that focused on communication, planning, trust, public relations, human resources and supervision. We are using these results to establish a baseline of employee opinion and to identify priorities for change and improvement. MACC also implemented several changes to the corporation's organizational structure over the past year to improve effectiveness and efficiency of operation, and increase the level of client service in the delivery of our programs. More changes will follow in 2004-2005.

On behalf of the Executive Management team and the Board of Directors, we would like to recognize and commend MACC's employees who proved their capability and commitment to helping Manitoba producers during this difficult year. Handling the record business volumes, while providing high levels of service, is a very significant accomplishment. Many thanks also go to our Board and to our Minister, Honourable Rosann Wowchuk for their direction and assistance throughout the year.



Lester Vopni
General Counsel
Corporate Secretary

Karen McEachen
Chief Financial
Officer

Albert Todosichuk
Vice-President,
Program Delivery

Charlene Kibbins
Acting, Chief Executive Officer
Vice-President, Corporate
& Program Delivery
Ex-officio Board Member

Executive Management

C. Kibbins

Charlene Kibbins
Acting, CEO

Bill Uruski

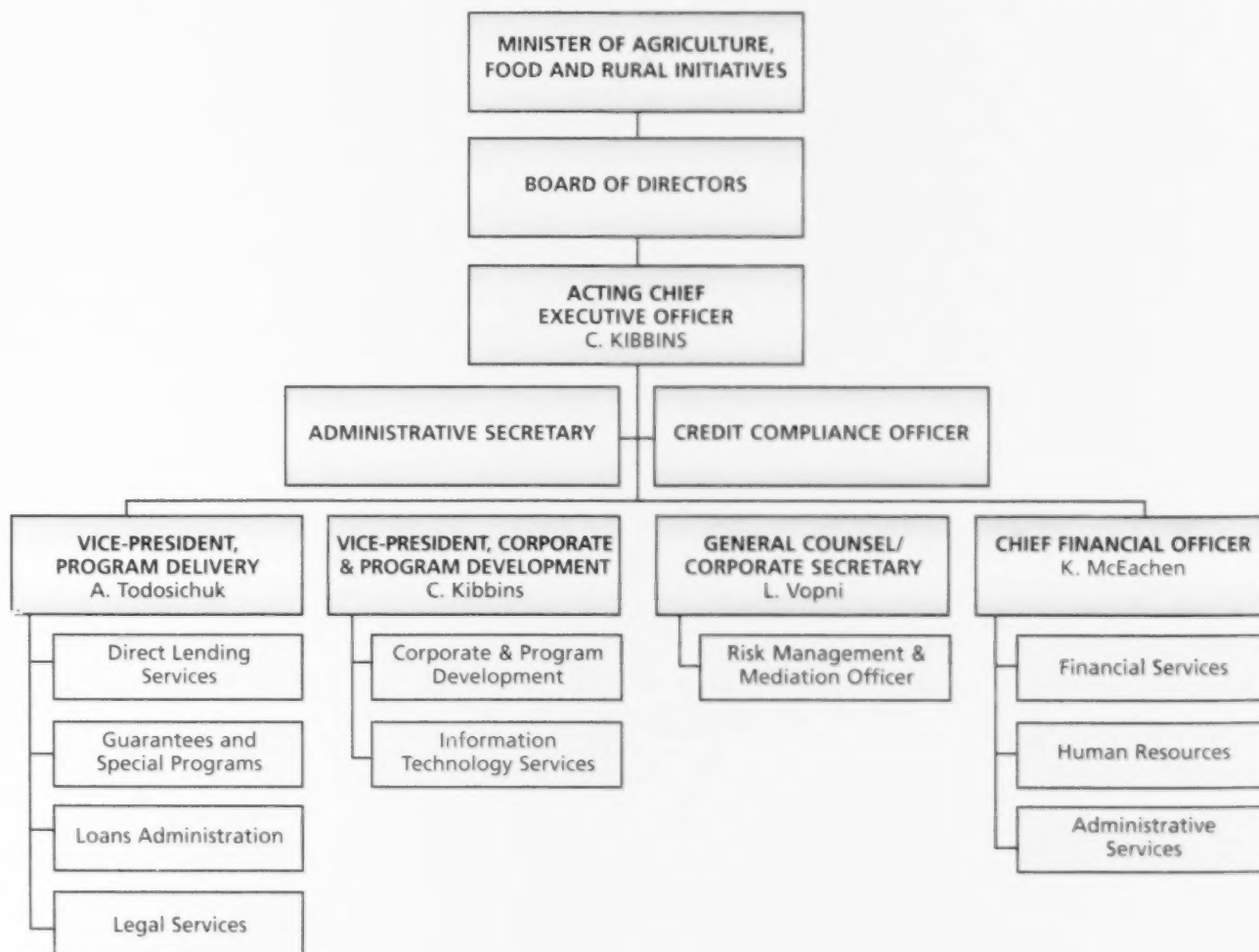
Bill Uruski
Chair

ORGANIZATION CHART

MACC staff is located throughout the province, with the Head Office in Brandon. MACC is governed by a Board of Directors appointed by the Lieutenant-Governor in Council. The CEO, who reports to the Board of Directors, is responsible for the management, direction, and control of the operations of MACC and the day-to-day administration of its affairs. The CEO is also a member of the Executive Management Committee of Manitoba Agriculture, Food and Rural Initiatives. MACC is comprised of three main divisions – Program Delivery, Corporate and Program Development, and Finance and Administration.

MACC continues to move forward with reorganization to improve effectiveness and efficiency of operation, and increase the level of client service in the delivery of our programs. Changes to our structure have been implemented over the past year and a number of process changes and enhancements are underway.

MANITOBA AGRICULTURAL CREDIT CORPORATION – MARCH 31, 2004



OPERATING PHILOSOPHY

ALLIANCE BUILDING

We are committed to building partnerships and relationships within the agricultural community.

SERVICE

We are committed to providing professional, prompt, respectful, orderly, efficient and ethical service.

PRODUCTIVITY

We are dedicated to providing a high volume of high-quality products.

PROGRESS

We believe in the future of agriculture as a viable industry in Manitoba and are dedicated to program change and enhancement that addresses unserved financial needs in the agricultural community.

PROFESSIONAL GROWTH

We are committed to employee development and advancement in an atmosphere of mutual trust that fosters initiative and creativity.

ORGANIZATIONAL STRUCTURE

We are committed to defining roles and responsibilities that will support efficient decision-making, orderly flow of information, and effective program delivery.

COMMUNICATION

We believe that effective and open communication, based on listening and responding, is integral to a successful organization.

OPERATIONAL BACKGROUND

MACC recognizes that satisfied, knowledgeable staff is essential in providing *quality customer service*. In order to determine current levels of employee satisfaction, MACC initiated a process to track corporate performance, ensuring the identification of staff concerns that may impede quality customer service. Expanded access to our clients through email and the Internet will also improve customer service; and will continue to advance as rural communities become more accessible electronically. MACC looks forward to taking advantage of enhanced electronic access to rural communities to improve turnaround times and provide more efficient service for clients.

Another goal for MACC is *to be recognized for quality financing programs*. Assessing and managing credit risk is essential in protecting MACC's clients and the Province. Credit risk is inherent both in MACC's lending portfolio and its guarantee programs. MACC strives to provide quality programs with reasonable terms and conditions to all agricultural sectors ensuring a diversified portfolio. As well, MACC lending staff is highly skilled in credit risk assessment and management.

MACC continually examines the current agricultural environment to ensure that financing gaps for rural economic development projects are being filled. Such gaps include the financing of larger production units necessary to take advantage of economies of scale, supply managed commodities, and supporting development projects complementing the government's commitment to agriculture.

MACC *provides unique and essential financial assistance programs* facilitating the establishment and development of value-added and diversification activities of farms and agricultural enterprises. MACC complements its traditional programming through guarantee partnerships, which provide support to financial institutions in rural communities by making agricultural financing an attractive option. A number of agricultural processing initiatives have begun or are being proposed in rural Manitoba.

In many agricultural sectors, costs for capital assets and other operating expenses continue to rise faster than gross revenues resulting in reduced debt service capacity and shrinking net margins. At the same time, access to credit from traditional lenders continues to be limited. This is reflected in increasingly restrictive eligibility requirements and a decreasing number of local branches. In order to *increase the availability of credit, under reasonable terms and conditions*, MACC offers guarantee programs to help producers access financing for capital-intensive projects from the private sector. The client, the rural community, the lender and MACC all benefit from these partnerships.

Delivery of *emergency and special assistance programs* for the Province on a priority status makes MACC a valuable instrument in government. Through restructuring, MACC has better positioned itself to rapidly respond to emergency and special situations while maintaining our mandated services.

YEAR IN REVIEW

Destination 2010 – A Strategic Roadmap for Agriculture and Food outlined Manitoba Agriculture and Food's strategic routes. These routes identify the programs and activities needed to achieve their vision. Within the routes of *Farm Profitability*, *Diversification and Adding Value*, and *Market Development*, MACC plays a vital role guided by the corporation's Vision and Goals.

The expanded department of Manitoba Agriculture, Food and Rural Initiatives, including MACC, the Manitoba Crop Insurance Corporation, and the Food Development Centre, has embarked on the *Growing Opportunities Initiative*; an organizational review with the intent to renew the department, discuss roles and responsibilities as a government department and to determine the opportunities that avail themselves to agro-Manitoba.

FARM PROFITABILITY

As the economic environment is continually changing, producers must constantly update their knowledge and skills while having access to effective risk-reduction measures. MACC is striving to meet these needs by providing financial services with reasonable terms and conditions. MACC targets Manitoba's young, beginning and lower-equity producers and offers reasonable terms and conditions such as reasonable interest rates and the Young Farmer Rebate. MACC encourages farm management training for young producers involved in family farm transfers with the Management Training Credit component of the Bridging Generations Initiative.

In order to meet our goal "To provide quality customer services," over the past year MACC developed the Client Comment Sheet to encourage communication with our clients. This questionnaire helps us to measure aspects of service in order to enhance our existing programs and assist in program development. Since April 1, 2003, MACC has issued this questionnaire with all new loans. Clients are able to rate the service they received, and provide their comments on their experiences with MACC and programs available for Manitoba producers. Return rate and responses received have been very positive.

MACC has taken some major steps in reorganization to improve effectiveness and efficiency of operation, and

increase the level of client service in the delivery of our programs. This past year, the positions of Credit Compliance Officer, Risk Management & Mediation Officer, Manager of Guarantees and Special Programs, Feeder Associations Coordinator, and Program Officer were filled internally.

Research for a standard training curriculum is underway for MACC's Field Representatives. The curriculum will include specific training modules to cover necessary skills and knowledge for Field Representatives to appropriately analyze and prepare sound recommendations on MACC's full range of loans.

Another MACC goal is "To be recognized for quality financing programs." MACC is committed to constant review and analysis of its programming to ensure it remains relevant to the emerging financial needs of Manitoba producers. In 2003-2004 MACC was able to provide the following changes to its long-standing Direct Lending program:

- MACC increased the maximum financing for farm housing to \$120,000 (previously \$100,000, established in 1998) based on the results of a review of the current cost and size standards for an entry-level bungalow in rural Manitoba.
- Due to an increase of 15.1%¹ in the average living cost for a family of four from 1998 to 2002, MACC raised the off-farm income cap to \$80,000 (previously at \$70,000, established in 1998).

These increases ensure continued opportunities for producers with modest-sized operations to obtain financing with reasonable terms and conditions. MACC is able to continue to fill financing gaps in credit availability while ensuring that its programming reaches the target group of young, beginning and diversifying producers.

An additional MACC goal is "To increase the availability of credit, under reasonable terms and conditions, from traditional financial institutions to Manitoba farmers" by guaranteeing loans from other financial institutions. On April 1, 2003 MACC implemented the Operating Credit Guarantee (OCG) program to assist Manitoba producers secure sufficient operating credit with reasonable terms and conditions. MACC provides a 25% guarantee on operating lines of credit

with participating private lending institutions. The Operating Credit Guarantee replaces the Guaranteed Operating Loan program, which expired March 31, 2003. MACC also continued to provide the Enhanced Diversification Loan Guarantee (DLG+) and the Manitoba Cattle Feeder Associations Loan Guarantee programs to help Manitoba producers obtain financing that may otherwise not be available to them.

As always, MACC is ready **"To deliver emergency and special assistance programs for the Province on a priority status."** With the confirmed case of BSE found in an Alberta beef cattle herd on May 20, 2003, and the subsequent closure of the U.S. border to Canadian beef exports, Canada's ruminant producers are facing severe financial hardship. Along with existing programs already in place, which have proven to be flexible enough to also be of assistance, MACC responded to the BSE crisis with the implementation of the BSE Recovery Loan Program. Manitoba ruminant producers have access to up to \$75,000 to assist in cash flow challenges arising from BSE. As of March 31, 2004 MACC approved a total of \$56.9 million to 1,458 producers in BSE Recovery Loans. Existing programming includes payment deferrals on existing MACC Direct Loans, cash advances through MACC's Stocker Loans, guaranteed operating lines of credit with the OCG, and Direct Loans for debt consolidation.

In February 2004, after industry consultation, MACC added the BSE Feeder Financing Initiative to provide another financing option for Manitoba cattle feeders to purchase or maintain their feeder cattle until marketing conditions improve. These one-year loans were available until May 31, 2004 and provided up to \$175,000 for the purchase of feeder cattle and calves. The loans could also be used to obtain a cash advance on cattle already in the producer's possession. As of March 31, 2004 MACC provided a total of \$1.7 million to 13 producers in BSE Feeder Financing Loans.

SUSTAINABILITY

Implemented in April 2002, the Bridging Generations Initiative has seen significant participation. This initiative provides financial assistance to help young farmers purchase a farm operation while providing retiring farmers with a reliable payment schedule.

The Management Training Credit is also included, which helps young farmers increase their farm business management skills. Regional Manitoba Agriculture, Food and Rural Initiatives staff provide assistance by developing and administering individual client training programs. MACC provided a total of \$10.8 million in loans this past year to applicants under the Bridging Generations Initiative to help establish a new generation of Manitoba farmers. Since inception the program has assisted 216 clients for \$25.4 million.

DIVERSIFICATION AND ADDING VALUE

MACC contributes to this area by providing a more stable economic foundation for Manitoba producers interested in pursuing economic expansion and prosperity through increased diversification and value-added activities. Since 1995, MACC has been able **"To provide unique and essential financial assistance programs facilitating the establishment, development, value-added and diversification activities of farms and agricultural enterprises"** through its Diversification Loan Guarantee programming. Use of the Enhanced Diversification Loan Guarantee program, implemented in 2001, has seen significant demand year after year.

MARKET DEVELOPMENT

As new agricultural market opportunities emerge, MACC is prepared to assist in meeting client needs. While opportunities continue to emerge, this past year has shown market retraction in some agriculture sectors creating financial adversity. In 2003-2004, Manitoba producers experienced difficulty maintaining status quo due to a host of issues such as:

- BSE crisis
- drought affected areas
- reduction of PMU contracts
- potato industry cut backs as a result of the low carbohydrate lifestyle
- value of the Canadian dollar
- Avian Flu ramifications

MACC stood by Manitoba producers providing financial options to help them through obstacles during this difficult year.

STRATEGIC DIRECTION

MACC believes in the future of agriculture as a viable industry in Manitoba. The Vision, which is the driving force of the Corporation, is that of "A sustainable Manitoba agricultural economy."

In order to do its part in achieving this **Vision**, the corporation **Promises** "To participate in meeting the financial requirements of the agricultural community, thereby contributing to a vibrant Manitoba economy that is globally competitive."

MACC was established in 1958 and has a **Commitment** to:

- facilitate acquisition of credit for Manitoba farmers, especially young, beginning, low-equity farmers or those considering higher risk farm diversification, in establishing a viable farm operation
- provide the vehicle through which the Province of Manitoba can implement financial agricultural programs, determined by the government of the day as essential for the long-term viability of agricultural production, agricultural producers and rural development
- continue to develop MACC's relationship with private lending institutions in order to provide Manitoba farmers with access to credit under reasonable terms and conditions
- administer some of the Province's emergency and special assistance programs

The Corporation has specific challenges and opportunities offered by new technology and the need to operate in the political spectrum. MACC operates in a setting that is influenced by a number of factors. Some of the dynamics faced by the corporation and its clients include:

- volatile financial situations
- export-driven market
- public that is increasingly food safety and environmentally conscious and knowledgeable
- declining rural population
- attendant loss of political influence
- agricultural production/processing that is expensive and rapidly changing

Within this setting and the structure provided by its Vision, Promise and Commitment, MACC is dedicated to co-operation within the financial community in order to offer program development, change and enhancement that address the unserved financial needs in the agricultural community.

Goals have been established to focus the work of the Corporation. Within each goal, MACC challenges itself to accomplish specific initiatives for the 2004-2005 year.

Goal #1 – To provide quality customer services

2003-2004 Strategies	2003-2004 Targets	2003-2004 Results
Enhance efficiency, accuracy, and turnaround time in responding to client requests		
• Analyze research results and make recommendations for development of a client satisfaction measurement system	• By June 2003	• Implemented April 2003
• Research external credit scoring systems and make recommendation for appropriate system for MACC	• Committee established by June 2003 and recommendation for Treasury Board by March 2004	• Not initiated
• Develop infrastructure for remote data entry	• Approval for terminal/server by March 2003 and system developed by September 2003	• Terminal/server implemented March 2003 • Design phase initiated
• Provide improved access to program information by implementing the online Producer Inquiry Form	• 10% of client inquiries made through electronic Producer Inquiry	• Not completed due to security issues
Enhance MACC's client accessibility		
• Provide 24 hour multi-location accessibility to MACC on the internet	• 3,000 hits monthly on Manitoba Agriculture, Food and Rural Initiatives website	• 4,322 average for 10-month period • Only one location accessibility
• Encourage staff to perform on-site data entry for clients	• On-site data entry for all applications requiring appraisals	• Did not implement measurement system
2004-2005 Strategies	2004-2005 Targets	
Enhance efficiency, accuracy, and turnaround time in responding to client requests		
• Utilize Client Comment Sheet for a measurement of client satisfaction	• Revise form to encourage full completion • Test period of modified form • Maintain 20% rate of return	
• Field data entry of application/approval processing	• Analysis and design by December 2004 • Begin development in January 2005	
• Develop external credit scoring systems	• Establish committee by February 2005	
• Credit Compliance	• Complete BSE Recovery Loan Part 1 review • Build audit features for conversion of existing loan analysis spreadsheet to centralized database	
Enhance MACC's client accessibility		
• Perform on-site data entry for clients	• Establish and implement appropriate tracking system to determine demand for on-site data entry	
• Provide improved program information online	• Communications Coordinator to take HTML training to complete MACC edits to website • Establish tracking process for online client inquiries • Identify baseline for number of 'hits'	

Goal #2 – To be recognized for quality financing programs

2003-2004 Strategies	2003-2004 Targets	2003-2004 Results
Enhance awareness of MACC programs and accomplishments		
• Conduct program awareness training for lenders and extension staff • Add regular MACC information to the district newsletters in the four Manitoba Agriculture, Food and Rural Initiatives regions • Continue to hold program delivery sessions for MACC staff with semi-annual credit meetings and conduct program awareness with producers • Initiate development of lenders' manuals for the Enhanced Diversification Loan Guarantee Program • Deliver procedural guidelines to participating lenders for the new Operating Credit Guarantee Program	• Annual presentation in each agricultural region • April 2003 • Improved responses from Client Focus Groups • December 2003 • April 2003	• 2 sessions held on the BSE Recovery Loan Program • 6 Field Reps contributed to local Ag Rep's newsletter in three of four agricultural regions • Staff – BSE Recovery Loan session • Producers – 9 program awareness sessions held • Draft completed • Completed

2004-2005 Strategies	2004-2005 Targets
Enhance awareness of MACC programs and accomplishments	
• Conduct program awareness with producers • Initiate regular MACC articles for the district newsletters in the four agricultural regions • Program delivery sessions for MACC staff • Initiate development of lenders' manuals for the DLG+ Program • Deliver awareness campaign with Communications Services Manitoba	• Prepare material for 2005-06 focus groups • Define process • Encourage Field Reps to submit articles • Conduct 1 full-day session • Distribution • Consultation and development • Initiate first stage of campaign

Goal #3 – To provide unique and essential financial assistance programs facilitating the establishment, development, value-added and diversification activities of farms and agricultural enterprises

2003-2004 Strategies	2003-2004 Targets	2003-2004 Results
Analyze the marketplace and report on identified gaps and emerging needs • Make recommendations on financing needs in the following areas: • Measure activity relating to established target groups under the Client Profile System Develop or enhance existing products to fill gaps and meet needs • Establish or refine criteria and guidelines for: Implement new products or program enhancements • Provide financing related to:	• Rural development focus/financing gaps • Bio-fuels • Marketing co-ops • Custom operations • Indian & Northern Affairs • Identify additional information to be captured by June 2003 • Complete testing phase by March 2004 • Modest farms (in Statistics Canada profiling) • Hemp processing • Organic and pesticide-free production • Specialized environmental infrastructures • Grass and forage seed processing • Modest farms (in Statistics Canada profiling) • Abattoirs • Manure management	• Confirmed facilitation through guarantee programs • Comprehensive review of CAISP financing options • Contributing to Manitoba Agriculture, Food and Rural Initiatives Agri-Energy Committee • On-going review • Review not required • Review & analysis for MACC fit • Incomplete • Proposed increase to Net Worth and Direct Lending limits • Determined not to be a role for MACC • Incomplete • Green Loan concept deferred due to BSE • 4 projects for \$1.9 M • Determined eligible - proposed increases will help better address • 1 DLG+ project for \$125,000 • 2 DLG+ projects for \$306,000

2004-2005 Strategies

Analyze the marketplace and report on identified gaps and emerging needs

- Make recommendations on financing needs in the following areas:

- Measure activity relating to established target groups under the Client Profile System

Develop or enhance existing products to fill gaps and meet needs

- Lending on First Nations' reserves

Implement new products or program enhancements

- Green Loan Initiative

2004-2005 Targets

- Commodity price list for organic and pesticide free products
- Possible financing options for meat processing facilities
- Operating credit options for hog industry
- Lighter weight (under 400 lb) for stockers
- Variable rate financing
- Identify additional information

- Determine if MACC role exists for lending on First Nations' reserves

- Work with partners to establish criteria and guidelines for Green Loan initiative

Goal #4 – To increase the availability of credit, under reasonable terms and conditions, from traditional financial institutions, to Manitoba farmers

2003-2004 Strategies	2003-2004 Targets	2003-2004 Results
Analyze the marketplace and report on identified gaps and emerging needs		
Evaluate potential for non-participating financial institutions to become involved in guarantee programs	36 consultation sessions and a summary report submitted by March 2004	40 sessions as per Networking Log
Develop or enhance existing products to fill gaps and meet needs		
Establish criteria and guidelines for breeder financing	September 2003	Due to BSE, enhancements were put on hold
Complete Treasury Board submission for breeder financing	December 2003	Not completed
Implement new products or program enhancements		
Provide loan guarantees under a new guarantee program for operating loans	April 1, 2003	Operating Credit Guarantee implemented April 1, 2003
Introduce enhancements to Manitoba Cattle Feeder Associations Loan Guarantee program for breeder financing	Agreement signed and program rolled out by March 2004	Due to BSE, enhancements were put on hold
2004-2005 Strategies	2004-2005 Targets	
Analyze the marketplace and report on identified gaps and emerging needs		
Maximize private sector lender involvement with MACC guarantee programs	Conduct consultations session with lenders throughout the province (SW 29%, NW 27%, Eastern 44%)	
Develop or enhance existing products to fill gaps and meet needs		
Feeder Associations	Revise Feeder Association Agreement	
Breeder Financing	Establish criteria and guidelines for a Breeder Association	
Implement program renewal		
Analyze marketplace and implement program renewal if warranted	Obtain approval for extension of DLG+ in 2005-06	

Goal #5 – To deliver emergency and special assistance programs for the Province on a priority status

2003-2004 Strategies	2003-2004 Targets	2003-2004 Results
Have a vehicle to address the needs of Manitoba farm families to facilitate intergenerational farm transfers		
• Deliver the Bridging Generations Initiative • Deliver the BSE Recovery Loan	• 200 loans and guarantees for \$40 million • \$100 million	• 216 loans (1 Guarantee for \$2.0 million) for \$25.4 million • 1,458 loans approved for \$56.9 million
Identify trends through our networking strategy		
• Meet with lenders, stakeholders and clients	• 24 consultative sessions and a summary report submitted by March 2004	• Deferred
Establish an archive system to provide ready access to emergency and special assistance program information		
• Develop a system format using the Flood Proofing Loan Assistance Program information as a template	• March 31, 2004	• Not developed

2004-2005 Strategies	2004-2005 Targets
Have a vehicle to address the needs of Manitoba farm families to facilitate intergenerational farm transfers	
• Meet with lenders, stakeholders and clients to help identify financing gaps and industry trends	• Establish process for reporting more and better information on Networking Log • Establish baseline of contacts and number of people reporting information
Establish an archive system to provide ready access to emergency and special assistance program information	
• Develop an archive system format using the Flood Proofing Loan Assistance Program information as a template	• Complete Flood Proofing Loan Assistance program archive

SUMMARY OF OPERATIONS

MACC has a reputation for proactive financial programs meeting the challenges and opportunities faced by the agricultural industry. We continually monitor farm financial services in order to provide financing in gap areas that are not served by other institutions. MACC works in co-operation, not in competition, with other financial institutions to ensure that Manitoba's farming community is fully serviced. MACC provides short, intermediate and long-term credit to agricultural producers serving a wide variety of purposes. We work with Manitoba farmers to find the financial management answers to help them achieve their goals.

MACC's farm lending products include:

DIRECT LENDING PROGRAM

- Direct Loans
- Stocker Loans
- Bridging Generations Initiative
- Young Farmer Rebate

EMERGENCY AND/OR SPECIAL ASSISTANCE PROGRAMS

- BSE Recovery Loans
- Comprehensive Refinancing Loans
- Manitoba Farm Mediation Loan Guarantee

GUARANTEED LOAN PROGRAMS

- Enhanced Diversification Loan Guarantee
- Manitoba Cattle Feeder Associations Loan Guarantee
- Operating Credit Guarantee

PROPERTY MANAGEMENT

- Short Term Leases
- Land Lease Option Program

DIRECT LENDING PROGRAM

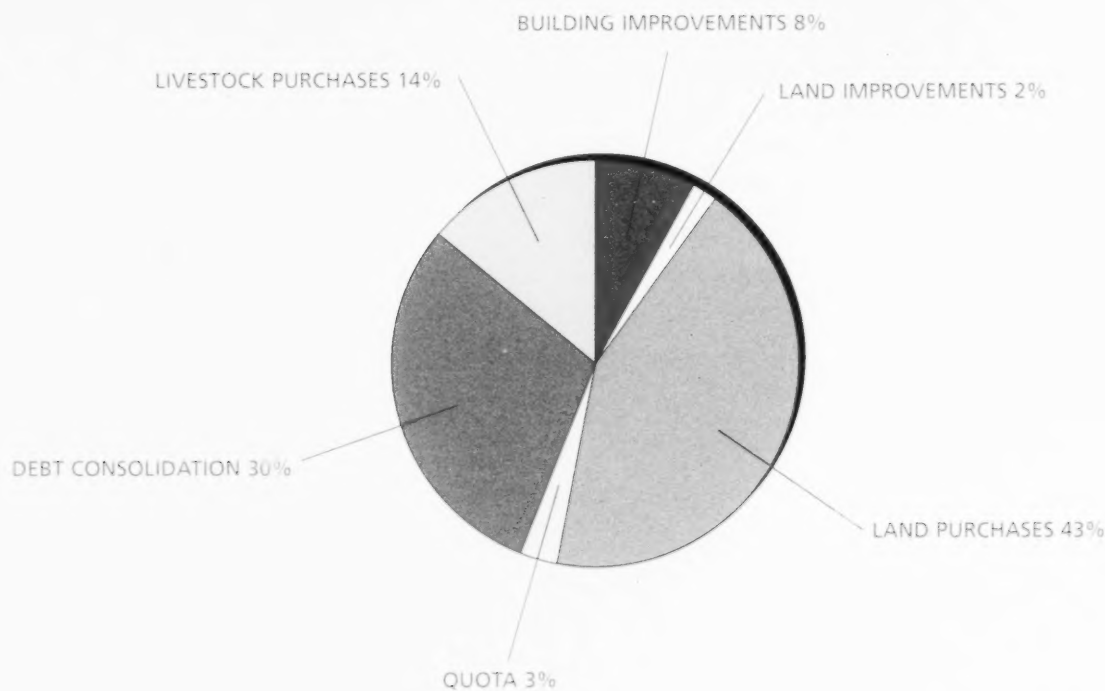
MACC's Direct Lending Program provides eligible Manitoba producers with short-, intermediate-, and long-term financing, competitive interest rates and no prepayment penalties. Clients also have the control and flexibility of locking the interest rate for the full amortization period or by selecting a five-year renewable interest term.

DIRECT LOANS

In 1959-1960, the first year of its inception, MACC offered Direct Loans to assist Manitoba producers in establishing, developing and operating their farms. Direct Loans are available for a variety of purposes such as the purchase of land/buildings, permanent improvements to land/buildings, traditional or alternative breeding stock, construction and renovation of production buildings, quota or debt consolidation.

During 2003-2004, there were 296 loans approved totalling \$19.0 million as compared to 334 loans approved totalling \$18.8 million during 2002-2003. The major allocation of agricultural lending activities in 2003-2004 went to land purchase loans of 43% and debt consolidation loans of 30%.

APPROVED DIRECT LOANS BY PURPOSE 2003-2004



STOCKER LOANS

In 1974-1975, MACC introduced Stocker Loans to provide livestock inventory financing to qualified livestock producers. This includes the purchase of feeder steers, feeder heifers, feeder cows, unbred heifers and equine growers.

During 2003-2004, MACC approved 365 loans for 44,675 head, totalling \$22.1 million as compared to 337 loan approvals for 34,961 head, totalling \$19.5 million for 2002-2003.

BRIDGING GENERATIONS INITIATIVE

In 2002-2003, MACC implemented the Bridging Generations Initiative, a five-year pilot project, to assist in the transferring of farm assets between retiring and next generation farmers. The initiative is comprised of six key elements:

- Bridging Generations Loan
- Bridging Generations Mortgage Guarantee
- Livestock Herd Establishment Loan
- Land Lease Guarantee
- Lifestyle Transition Loan
- Management Training Credit

During 2003-2004, MACC approved 92 Bridging Generations Loans, totalling \$10.6 million and 1 Bridging Generations Mortgage Guarantee for \$0.2 million as compared to 123 Bridging Generations Loans, totalling \$14.6 million in 2002-2003.

YOUNG FARMER REBATE

Direct Loans and Bridging Generations Loans can include a Young Farmer Rebate for qualifying clients. MACC introduced the Young Farmer Rebate in 1978-1979 to assist young, beginning and expanding farmers in the development, re-organization and expansion of their farm operations. The rebate is aimed at reducing the cost of borrowing during the critical start-up stage of the operation. Eligible young farmers, under the age of 40, receive a rebate of 2% on the first \$100,000 of principal on Direct Loans or Bridging Generations Loans, with an interest term of five years or greater. The maximum lifetime rebate is \$10,000.

During 2003-2004, MACC distributed \$1.7 million of Young Farmer Rebates as compared to rebates of \$1.9 million during 2002-2003. Young farmers were approved for 77% of the total Direct Loan dollar volume in 2003-2004 as compared to 78% for 2002-2003.

EMERGENCY/SPECIAL ASSISTANCE PROGRAMS

As required, MACC plays a vital role in delivering financial assistance and/or programming in specialized areas that are identified as critical by the Province for Manitobans.

BSE RECOVERY LOAN PROGRAM

MACC implemented the BSE Recovery Loan Program in August 2003. This program provides financial assistance to Manitoba ruminant producers to address feed purchase requirements and accounts payable (excluding term loan payments), which may otherwise jeopardize the continuity of the operation due to the impact of the detection of BSE in Canada.

As of March 31, 2004, MACC approved 1,458 loans totalling \$56.9 million.

COMPREHENSIVE REFINANCING LOANS

MACC introduced Comprehensive Refinancing Loans in 1985-1986 to provide loans to farmers who were in financial difficulty. MACC enhanced the program in 1998-1999 when \$5 million was made available specifically for lending to existing MACC clients in financial difficulty. The interest rate was set at 6.50% for the first five years of each loan. An additional \$5 million was made available in 2001-2002 with the same interest rate.

During 2003-2004, MACC approved 5 loans totalling \$524,840 as compared to 9 approvals for \$957,481 in 2002-2003.

MANITOBA FARM MEDIATION LOAN GUARANTEE

During 1987-1988, loan assistance to clients of the Manitoba Farm Mediation Board was identified to be in the category of "special programs." The Manitoba Farm Mediation Board has funds which it may use to provide guarantees to lenders to assist farmers experiencing financial difficulties.

In 2003-2004, there were Manitoba Farm Mediation Guarantees associated with 3 new loans totalling \$417,537 as compared to 5 loans totalling \$582,568 during 2002-2003.

GUARANTEED LOAN PROGRAMS

MACC is committed to meeting the financing requirements of Manitoba's agricultural producers by working in partnership with the major chartered banks, credit unions and caisses populaires. These partnerships provide agricultural producers with access to credit where it would not otherwise be available due to factors such as insufficient equity or security and unproven projects. MACC's guarantees encourage private lenders to participate in areas that they may otherwise consider higher risk.

ENHANCED DIVERSIFICATION LOAN GUARANTEE (DLG+)

In order to assist Manitoba producers in diversifying their current operation and/or add value to commodities produced on the farm, MACC introduced the Diversification Loan Guarantee program (DLG) in 1995-1996. The Enhanced Diversification Loan Guarantee program (DLG+) replaced the original program in 2001-2002. MACC bases the guarantee on 25% of the principal amount of the loan with no maximum loan cap.

During 2003-2004, MACC approved 42 Enhanced Diversification Loan Guarantees for a total of \$42.9 million as compared to 52 approvals with a total of \$73.3 million during 2002-2003. At the end of 2003-2004, MACC's total portfolio for the Enhanced Diversification Loan Guarantee program included 197 active guarantees totalling \$218.3 million as compared to 170 active guarantees totalling \$182.4 million at the end of 2002-2003.

MANITOBA CATTLE FEEDER ASSOCIATIONS LOAN GUARANTEE

In 1991-1992, the Manitoba Cattle Feeder Associations Loan Guarantee program was introduced to assist Manitoba residents in establishing Feeder Associations and enable them to borrow funds on the strength of a government guarantee to lenders. For each association, the Corporation provides a guarantee to the individual lending institution, based on 25% of the amount of the loan. The maximum guarantee is \$1.25 million per association.

At the end of 2003-2004, there were 10 Feeder Associations with a total of \$22.0 million in approved guaranteed loans (for 132 active members) as compared to 10 Feeder Associations with \$24.4 million in approved guaranteed loans (for 150 active members) at the end of 2002-2003.

OPERATING CREDIT GUARANTEE

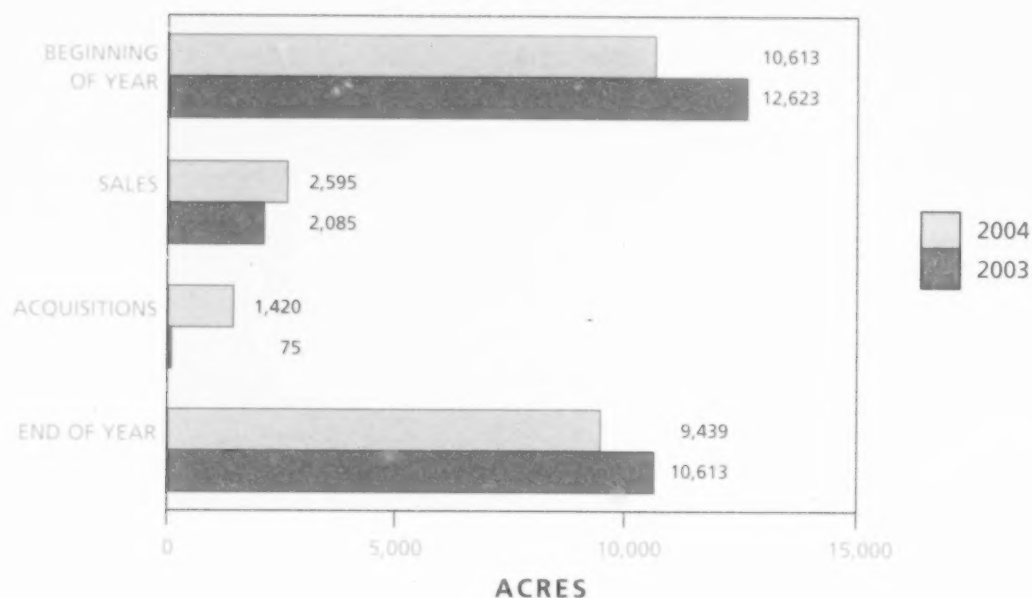
To assist producers in obtaining operating lines of credit, MACC introduced the Guaranteed Operating Loan program in 1983-1984. The Operating Credit Guarantee program replaced the original program in 2003-2004. MACC provides a 25% guarantee on new lines of credit made to agricultural producers by participating financial institutions for operating expenses. The interest rate on the line of credit cannot exceed the lender's prime rate plus 1.5%.

During 2003-2004, MACC provided 53 loan guarantees totalling \$8.5 million approved with the new Operating Credit Guarantee as compared to 90 loan guarantees totalling \$13.4 million approved during 2002-2003 under the Guaranteed Operating Loan.

PROPERTY MANAGEMENT

MACC acquires title to property as a result of debt settlement negotiations or foreclosure proceedings. MACC's policy is to return property to the farmers, wherever possible, by either selling or leasing. If feasible, the property is leased to the original owner.

PROPERTY ACTIVITY



SHORT TERM LEASES

MACC offers properties with expired leases for sale by public tender. Properties that are not sold are tendered for lease.

As at March 31, 2004, there were 9 Short Term Leases consisting of 2,463 acres.

LAND LEASE OPTION PROGRAM

From 1974 to 1977, MACC purchased farmland from willing sellers and leased it to qualifying farmers. The corporation acquired a total of 223,600 acres for \$22.6 million.

As at March 31, 2004, there were 19 Long Term Leases and Agreements for Sale on 6,523 acres.

LENDING PORTFOLIO

As at March 31, 2004, MACC's total loan portfolio increased by 1,351 loans, \$56.6 million over last year. This increase is primarily due to the BSE Recovery Loan Program and the increase in Stocker Loan activity.

	Approvals 2003-2004		Approvals 2002-2003		Active & Outstanding AS OF MARCH 31, 2004	
	# of Loans	\$M	# of Loans	\$M	# of Loans	\$M
DIRECT LENDING						
Direct Loans	296	\$19.0	334	\$18.8	4,635	\$239.4
Stocker Loans	365	22.1	337	19.5	427	20.9
Bridging Generations Loans	93	10.8	123	14.6	213	22.8
Total Direct Lending	754	\$51.9	794	\$52.9	5,275	\$283.1
EMERGENCY/SPECIAL ASSISTANCE						
Comprehensive Refinancing Loans	5	0.5	9	1.0	89	5.8
BSE Recovery Loans	1,458	56.9	—	—	1,455	54.6
Enhanced Flood Proofing Assistance Loans ¹	—	—	—	—	380	1.9
Producer Recovery Loans ¹	—	—	—	—	442	15.2
Total Emergency/Special Assistance	1,463	\$57.4	9	\$1.0	2,366	\$77.5
TOTAL LENDING PORTFOLIO	2,217	\$109.3	803	\$53.9	7,641	\$360.6

GUARANTEE PORTFOLIO

In 2003-2004, MACC's guarantee portfolio saw a decrease in participation. However, given the unique circumstances with commodity prices experiencing market lows across all agriculture sectors at the same time, compiled with the BSE crisis, an environment was created this past year in which financing for projects for reasons other than absolute necessity were kept to a minimum.

	Approvals 2003-2004		Approvals 2002-2003		Active & Outstanding AS OF MARCH 31, 2004	
	# of Loans	\$M	# of Loans	\$M	# of Loans	\$M
GUARANTEES						
Enhanced Diversification Loan Guarantees ²	42	\$42.9	52	\$ 73.3	197	\$218.3
Guaranteed Operating Loans ¹	—	—	90	13.4	—	—
Operating Credit Guarantees	53	8.5	—	—	48	7.6
Manitoba Cattle Feeder Associations Loan Guarantees	10	22.0	10	24.4	10	22.0
TOTAL GUARANTEE PORTFOLIO	105	\$73.4	152	\$111.1	255	\$247.9

1. Past active program.

2. Active and outstanding loans from the original Diversification Loan Guarantee program are also included.

PROGRAM PARTICIPATION BY SECTOR

MACC's clients span all sectors of agriculture from grains and oilseeds to beef and supply-managed commodities. Similar to Manitoba's gross farm receipts,³ grains and oilseeds, hogs and beef represent the greatest proportion of MACC's portfolio.

Primary Enterprise	Direct Lending % of Portfolio (\$)	Feeder Association % of Portfolio (\$)	Operating Credit Guarantee % of Portfolio (\$)	DLG & DLG+ % of Portfolio (\$)	TOTAL PORTFOLIO March 31, 2004
Grains/Oilseeds	43.6%		49.4%	0.0%	37.4%
Potatoes	0.2%		20.0%	6.2%	1.1%
Other Crops	2.0%		7.2%	0.2%	1.8%
Beef	44.6%	100%	16.6%	0.2%	39.4%
Hogs	4.8%		0.3%	65.7%	12.6%
Poultry	0.8%		0.5%	6.1%	1.4%
Dairy	1.2%		3.0%	7.7%	2.0%
Other	2.8%		3.0%	13.9%	4.3%
Total of Portfolio	85.3%	1.3%	0.5%	12.9%	100.0%
*Guarantees representative of contingent liability					
\$ of Portfolio (Millions)	\$358.7	\$22.0	\$7.6	\$218.3	\$606.6
*Guarantees represent total value of loans					

Note: Table does not include Enhanced Flood Proofing Assistance Loans.

3. Source: Manitoba Agriculture Yearbook 2002

FINANCING THE CORPORATION

Beginning in 1959-1960, its first full year of operation, the corporation borrowed its capital requirements from the Province of Manitoba. The capital funds at that time remained with the Corporation to be reused for lending purposes and the interest charged on this debt was paid annually to the Province.

In 1977, arrangements were made to repay these capital funds and the fixed interest charges over an amortization period as consistent as possible with the term over which these funds were loaned to farmers. Subsequent capital advance requirements and terms of repayment were determined annually based on the lending activity of the Corporation for that year.

FINANCIAL STATEMENTS

BALANCE SHEET – DEFICIT ACCOUNT

1985-1986 brought a change in the method of funding provided by the Province for the Corporation's operations. This change eliminated any further funding of MACC's allowance for impaired loans and required a return to the Province of funds provided for this allowance prior to March 31, 1985.

Because of this funding change, the Corporation continues to operate from an accumulated deficit position which is now \$36,537,435. This is essentially the allowance for impaired loans total of \$28,967,435 at March 31, 2004, less the reserve for working capital and other provisions in the amount of \$7,570,000.

STATEMENT OF REVENUE AND EXPENDITURE

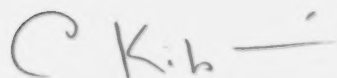
The costs of operation were \$37,327,600 offset by revenues of \$27,586,463 which includes \$5,579,968 from the Province of Manitoba.

June 25, 2004

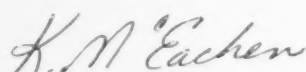
MANAGEMENT REPORT

The accompanying financial statements are the responsibility of management and have been prepared in accordance with Canadian generally accepted accounting policies. In management's opinion, the financial statements have been properly prepared and of necessity include some amounts based upon management's best estimates and judgements. The financial information presented elsewhere in the Annual Report is consistent with that in the financial statements.

As management is responsible for the integrity of the financial statements, management has established systems of internal control to provide assurance that reliable financial information is produced and assets are properly accounted for and safeguarded from loss. The Board of Directors, which oversees management's responsibilities for financial reporting, reviews and approves the financial statements. The Board of Directors meets with management and the auditors to discuss the audit, financial reporting, and related matters.



Charlene Kibbins
Acting, Chief Executive Officer



Karen McEachen
Chief Financial Officer



Office of the Auditor General

500 - 330 Portage Avenue
Winnipeg, Manitoba
CANADA R3C 0C4

AUDITORS' REPORT

To The Legislative Assembly of Manitoba, and
To the Board of Directors of the Manitoba Agricultural Credit Corporation

We have audited the balance sheet of The Manitoba Agricultural Credit Corporation as at March 31, 2004, the statement of revenue and expenditure and the statement of cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Office of the Auditor General

Office of the Auditor General

Winnipeg, Manitoba
June 25, 2004

FINANCIAL STATEMENTS

The Manitoba Agricultural Credit Corporation
BALANCE SHEET
 As at March 31, 2004
 (in thousands)

	2004	2003
Assets		
Cash (Note 3)	\$ 11,529	\$ 5,141
Investments (Note 4)	3,727	4,727
Receivables (Notes 2 and 7)		
Mortgages (Note 5)	266,425	269,753
Other (Note 6)	65,404	14,093
Long-term funding commitments – Province of Manitoba (Note 8)	5,985	5,581
Real estate (Notes 2 and 13)	1,577	1,521
	\$ 354,647	\$ 300,816
Liabilities and Deficit		
Accounts payable and accrued liabilities		
Unearned real estate revenue	\$ 10	\$ 12
Other	1,168	998
Provision for Young Farmer Rebate	499	549
Provision for losses on guaranteed loans (Notes 2 and 12)	10,277	9,075
Provision for employee pension benefits (Notes 2 and 10)	5,756	5,352
Advances from Province of Manitoba (Note 9)	373,475	311,627
	391,185	327,613
Deficit		
Balance, beginning of year	(26,797)	(26,097)
Excess of expenditure over revenue	(9,741)	(700)
Balance, end of year (Note 16)	(36,538)	(26,797)
	\$ 354,647	\$ 300,816
Contingent Liabilities (Note 12)		

APPROVED BY THE BOARD

Bill Uruski

Bill Uruski, Chair
 DIRECTOR

Sandy Yanick

Sandy Yanick, Vice-Chair
 DIRECTOR

The Manitoba Agricultural Credit Corporation
STATEMENT OF REVENUE AND EXPENDITURE
for the year ended March 31, 2004
(in thousands)

	2004	2003
Revenue		
Interest		
Mortgages	\$ 19,500	\$ 20,027
Other	1,480	940
Cash on deposit with Province of Manitoba	454	857
	21,434	21,824
Province of Manitoba	5,580	5,179
Services donated by Province of Manitoba (Note 2)	74	72
Real estate (Note 11)	464	239
Change in provision for decline in real estate values (Note 13)	(13)	20
Other	48	38
	27,587	27,372
Expenditure		
Administration costs		
Salaries and benefits (Note 2)	4,298	3,699
Impaired loan losses (recoveries) (Notes 2 & 7)	9,035	(168)
Change in provision for losses on guaranteed loans (Notes 2 & 12)	1,197	1,419
Assistance under the Manitoba Farm Mediation Board Program	113	56
Management Training Credit	2	—
Young Farmer Rebate	1,744	1,854
Other administration costs	1,067	996
	17,456	7,856
Financing charges		
Interest on advances from Province of Manitoba	19,872	20,216
	37,328	28,072
Excess of expenditure over revenue	\$ 9,741	\$ 700

The Manitoba Agricultural Credit Corporation
STATEMENT OF CASH FLOWS
 for the year ended March 31, 2004
 (in thousands)

	2004	2003
Cash Provided By (Used for)		
Operating activities		
Excess of expenditure over revenue	\$ (9,741)	\$ (700)
Items not involving cash		
Change in provision for impaired loan losses	8,526	(457)
Gain on disposal of real estate	(328)	(96)
Change in provision for decline in real estate value	13	(20)
Change in provision for Young Farmer Rebate	(50)	25
Change in provision for losses on guaranteed loans	1,202	1,176
Change in provision for employee pension benefits	404	235
Mortgage loans disbursed	(35,474)	(35,169)
Mortgage principal received	38,370	41,304
	12,663	6,998
(Increase) decrease in other receivables	(60,248)	5,020
Decrease in mortgage receivables	439	284
Increase (decrease) in accounts payable	168	(150)
	(59,641)	5,154
Cash (used for) provided by operating activities ⁽¹⁾	(56,719)	11,452
Investing activities		
Proceeds from real estate disposals	624	613
Real estate acquisitions	(365)	(46)
Cash provided by investing activities	259	567
Financing activities		
Advances received from Province of Manitoba	110,000	42,000
Advances repaid to Province of Manitoba	(48,400)	(56,796)
Increase in accrued interest on advances from Province of Manitoba	248	-
Cash provided by (used for) financing activities	61,848	(14,796)
Net increase (decrease) in cash	5,388	(2,777)
Cash and investments, beginning of year	9,868	12,645
Cash and investments, end of year	\$ 15,256	\$ 9,868

(1) Net cash used for operating activities includes \$21,551,401 (2003 - \$21,941,666) of interest received and \$19,623,698 (2003 - \$20,215,876) of interest paid.

The Manitoba Agricultural Credit Corporation
NOTES TO THE FINANCIAL STATEMENTS
As at March 31, 2004
(tabular amounts in thousands of dollars)

1. NATURE OF OPERATIONS

The Manitoba Agricultural Credit Corporation was incorporated under The Agricultural Credit Corporation Act of Manitoba. Under this Act, the Corporation provides and administers financial assistance to farmers to assist in the development of farms in Manitoba.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles and include the following significant accounting policies:

a) Allowances for Impaired Loans

The allowances for impaired loans are determined annually by a review of individual accounts. The allowances represent management's best estimate of probable losses on receivables. Where circumstances indicate doubt as to the ultimate collectibility of principal or interest, specific allowances are established for individual accounts. These accounts are valued at the lower of their recorded value and the estimated net realizable value of the security held for the accounts.

In addition to the allowances for impaired loans identified on an individual loan basis, the Corporation establishes a further allowance for impaired loans. This additional allowance for loan impairment represents management's best estimate of probable losses in its entire loan portfolio, due to potential future declines in the value of the real estate taken as the underlying security for these loans.

Current year provisions for impaired loans are charged to administration expenditure as impaired loan losses. Actual accounts written off by Board resolution are charged to the allowances for impaired loans.

b) Provision for Losses on Guaranteed Loans

The provisions for losses on guaranteed loans are determined annually by a review of individual guarantees. The provisions represent management's best estimate of probable claims against the guarantees. Where circumstances indicate the likelihood of claims arising, provisions are established for those loan guarantees. These provisions would cover principal, accrued and unpaid interest, and amounts recoverable.

Current year provisions for losses on guaranteed loans are charged to administration expenditure. Actual claims paid are charged to the provisions for losses on guaranteed loans. Recoveries are credited against current year's expenditure.

c) Real Estate Acquired in Settlement of Loans

Real estate that is acquired in settlement of loans through foreclosures and voluntary transfers of title is recorded at the lower of the recorded value of the loan and the appraised value of the real estate at acquisition date. Subsequent declines or increases in estimated realizable value are not recorded. Real estate is stated net of a provision for decline in real estate value.

d) Real Estate Under Long-Term Lease

Real estate that was acquired under the land lease program for long-term leases is recorded at cost.

e) Pension Plan

Employees of the Corporation are pensionable under the Civil Service Superannuation Act. The Corporation accrues a provision for the liability for the employer's share of employee pension benefits, including future cost of living adjustments, based on an actuarial valuation. The Corporation began to fund contributions for new employees beginning October 1, 2002.

f) Financial Instruments

Credit Risk

The Corporation provides direct loans to its customers in the normal course of operations. It carries out, on a continuing basis, credit reviews on its customers and maintains provisions for contingent credit losses.

Interest Rate Risk

Interest rate risk is the risk to the Corporation's earnings that arises from fluctuations in interest rates, and the degree of volatility of these rates. During the year ended March 31, 2004, the Corporation did not utilize derivative financial instruments to reduce its exposure to interest rate risk.

Fair Value of Financial Instruments

Because of the relatively short period to maturity, short-term financial instruments are valued at cost and adjusted for any applicable allowance for doubtful accounts. This is considered to be equivalent to fair value and applies to cash, other receivables, long-term funding commitments, accounts payable, and accrued liabilities. Fair values of mortgages receivable and advances from the Province of Manitoba are disclosed in their respective notes.

g) Donated Services

The Province of Manitoba provides certain administrative services at no charge to the Corporation. The estimated fair value of \$74,330 (2003 - \$72,100) for these services is included in salaries expenditure and donated services revenue in these financial statements.

h) Measurement Uncertainty - Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenditure during the reporting period. Actual results could differ from those estimates.

i) Investments

Investments with the Province of Manitoba are stated at the lower of cost or market value.

3. CASH

	2004	2003
Cash on hand in bank	\$ 1,772	\$ 416
Cash on deposit with Province of Manitoba	9,757	4,725
	\$ 11,529	\$ 5,141

4. INVESTMENTS, AT COST

	2004	2003
Province of Manitoba, trust deposit 5.75%, Due March 31st, 2005	\$ 3,727	\$ -
Province of Manitoba, trust deposit 5.75%, Due March 31st, 2004	-	4,727
	\$ 3,727	\$ 4,727

5. MORTGAGES RECEIVABLE

	2004	2003
Amounts are due over the following terms:		
1 year		
- Accrued interest	\$ 11,427	\$ 12,088
- Arrears	2,681	1,856
- Prepayments	(11,742)	(13,724)
- Regular instalments	21,773	24,457
	24,139	24,677
2 years		
- Regular instalments	24,042	25,300
3 years		
- Regular instalments	25,059	24,916
4 years		
- Regular instalments	25,123	25,376
5 years		
- Regular instalments	23,899	24,993
Over 5 years		
- Regular instalments	160,889	161,224
	283,151	286,486
Less: Allowance for impaired loans (Note 7)	16,726	16,733
	\$ 266,425	\$ 269,753

The approximate fair value of mortgages receivable at March 31, 2004 is \$288,012,750 (2003 - \$276,821,000). Fair value is based on expected future cash flows discounted by rates equivalent to the market rates on loans with similar terms and credit risk.

Terms of Mortgages Receivable

Direct lending and special assistance program mortgages are fixed rate mortgages which have an average yield as follows:

	Direct Lending Mortgages	Special Assistance Mortgages	Total
Less than 6.00%	\$ 15,191	\$ 111	\$ 15,302
6.01% to 7.00%	118,475	18,967	137,442
7.01% to 8.00%	114,164	1,595	115,759
More than 8.00%	14,365	283	14,648
	\$ 262,195	\$ 20,956	\$ 283,151

These mortgages have maturities as follows:

	Average Interest Rate	Direct Lending Mortgages	Special Assistance Mortgages	Total
1 to 4 years	7.340%	\$ 18,447	\$ 776	\$ 19,223
5 to 9 years	6.997%	69,455	17,082	86,537
10 to 14 years	7.072%	86,716	1,940	88,656
15 to 19 years	7.160%	63,733	1,158	64,891
20 to 24 years	7.243%	21,790	—	21,790
More than 25 years	7.365%	2,054	—	2,054
		\$ 262,195	\$ 20,956	\$ 283,151

6. OTHER RECEIVABLES

	2004	2003
Stocker loans	\$ 20,946	\$ 15,193
BSE Recovery loan program	54,639	–
Flood Proofing loan initiative	1,935	2,505
Lease revenue	78	58
Miscellaneous	16	14
	77,614	17,770
Less: Allowance for impaired loans (Note 7)	12,210	3,677
	\$ 65,404	\$ 14,093

Stocker loans are one-year loans with interest rates in the range of 4.05% to 7.85%. The BSE Recovery loans are two-year loans with interest rates of either 2.25% or 3.25%.

7. ALLOWANCES FOR IMPAIRED LOANS

	2004	Provision	Write-Offs	2003
Direct lending mortgages	\$ 12,038	\$ 553	\$ 374	\$ 11,859
Special assistance mortgages	4,688	(51)	135	4,874
	16,726	502	509	16,733
Stocker loans	2,514	(118)	–	2,632
BSE Recovery loan program	9,000	9,000	–	–
Flood Proofing loan initiative	665	(347)	–	1,012
Other	31	(2)	–	33
	12,210	8,533	–	3,677
	\$ 28,936	\$ 9,035	\$ 509	\$ 20,410

8. LONG-TERM FUNDING COMMITMENTS – PROVINCE OF MANITOBA

	2004	2003
Employee Severance	\$ 229	\$ 229
Employee Pension Benefits (Note 10)	5,756	5,352
	\$ 5,985	\$ 5,581

9. ADVANCES FROM PROVINCE OF MANITOBA

In accordance with Province of Manitoba practices, the Corporation must repay advances according to the amortization schedule or be subject to a prepayment penalty. The mark to market calculation for any principal prepayment will be the present value of the cash flows on the principal being repaid against the cash flows using a yield to maturity on the date of the payment compounded semi-annually that a non-callable Province of Manitoba Bond would carry, if issued in Canadian dollars in Canada, at 100% of its principal amount on the payment date with a term to maturity equal to the remaining term to maturity of the loan being repaid.

	2004	2003
Advances are repayable in equal annual blended instalments of principal and interest, with interest rates from 2.70% to 8.00%. Maturities of principal by fiscal year are as follows:		
2004	\$ –	\$ 47,891
2005	57,996	30,014
2006	63,424	30,316
2007	35,492	30,950
2008	31,024	26,304
2009	28,693	23,749
2010 through 2032	156,598	122,403
	373,227	311,627
Accrued Interest	248	–
	\$ 373,475	\$ 311,627

The approximate fair value of advances from the Province of Manitoba at March 31, 2004 is \$397,214,780 (2003- \$317,294,470). Fair values for the advances from the Province of Manitoba are based on the net present value of expected future cash flows, discounted by rates equivalent to the market rates on loans with similar terms and credit risk.

10. PROVISION FOR EMPLOYEE PENSION BENEFITS

Corporation employees are eligible for defined benefit pensions under The Manitoba Civil Service Superannuation Act. In accordance with the provisions of this Act, the Corporation contributes 50% of the pension disbursements made to retired employees.

Actuarial valuations are to be carried out every three years to provide an estimate of the accrued liability for unfunded pension benefits. The most recent actuarial valuation was performed as at December 31, 2001. Based on the 2001 valuation for "Future Indexing", the actuarial liability for unfunded pension benefits is estimated to be \$5,755,644 at March 31, 2004 (2003 - \$5,351,288). MACC's pension contributions were \$4,709 for the year ended March 31, 2004 (2003 - \$696).

11. REAL ESTATE REVENUE

	Proceeds	Book Value	2004	2003
Sales to lessees	\$ 525	\$ 212	\$ 313	\$ 33
Sales by public tender	99	84	15	63
	\$ 624	\$ 296		
Net gain on sale of real estate			328	96
Lease revenue from real estate acquired in settlement of loans and from long-term leases			152	166
Other revenue			-	-
Interest revenue			9	3
			489	265
Less: Real estate carrying costs			25	26
			\$ 464	\$ 239

12. CONTINGENT LIABILITIES

- a) The Corporation introduced the Operating Credit Guarantee Program on April 1, 2003, which replaced the Guaranteed Operating Loan Program introduced in April 1983. The Corporation guarantees each participating lending institution 25% of the total of each loan made under this program compared to the Guaranteed Operating Loan Program that guaranteed each participating lending institution 12 1/2% of the respective total value of all loans made under the program. As of March 31, 2004, the Corporation's contingent liability amounted to \$1,908,750 compared to the Guaranteed Operating Loan Program's contingent liability of \$9,627,779 at March 31, 2003. Based on management's best estimate of probable losses, the Corporation has made a provision for this contingency in the amount of \$290,750 compared to the provision of \$1,083,176 at March 31, 2003 for the Guaranteed Operating Loan Program. The Corporation adjusts the provision to the level regarded by management as appropriate through a current provision charged or credited to administration expenditure for the year.

- b) The Manitoba Cattle Feeder Associations Loan Guarantee Program was introduced jointly by Manitoba Agriculture, Food and Rural Initiatives and The Manitoba Agricultural Credit Corporation in November 1991. In September 1997, The Manitoba Agricultural Credit Corporation assumed responsibility for administration of the program. For each association, the Corporation provides a guarantee to the lending institutions, based on 25% of the amount of the loan to a maximum guarantee of \$1,250,000. As of March 31, 2004 the Corporation's contingent liability amounted to \$5,507,218 (2003 - \$6,096,324). Based on management's best estimate of probable losses, a provision has been made for this contingency in the amount of \$1,376,805 (2003 - \$1,524,081).
- c) The Diversification Loan Guarantee Program was introduced in December 1995, to provide guarantees on loans made by participating lenders, for diversification or farm value-added activities. The Corporation guaranteed 25% of the private lender's loan portfolio under this program. The maximum individual guaranteed loan allowable was \$3 million. As at March 31, 2004, the Corporation's contingent liability under this program amounted to \$15,351,919 (2003 - \$16,701,431). Based on management's best estimate of probable losses on this program, the Corporation has established a provision in the amount of \$2,725,587 (2003 - \$2,505,213).
- d) The Enhanced Diversification Loan Guarantee Program (DLG+) was approved in 2001, which replaced the Diversification Loan Guarantee Program. The guarantee is based on 25% of the original principal amount of the loan (no pooling) with no maximum loan cap. As at March 31, 2004, the Corporation's contingent liability under the DLG+ program amounted to \$39,225,342 (2003 - \$28,889,337). Based on management's best estimate of probable losses on this program, the Corporation has established a provision in the amount of \$5,883,801 (2003 - \$3,962,987).
- e) The Corporation has guaranteed performance bonds of certain agricultural marketing agencies in the amount of \$134,291 (2003 - \$250,270). No provision for this contingency has been made in the financial statements. Any payments arising from claims under these guarantees will be recorded as an expense in the period the claims occur.
- f) As at March 31, 2004 the Corporation had approved but not disbursed mortgages and other loans in the amount of \$10,600,428 (2003 - \$11,863,107).

13. REAL ESTATE

Based on a review of its current real estate portfolio, the Corporation has established a provision of \$30,800 for 2004 (2003 - \$18,000) to provide for future declines in real estate values. This provision represents management's best estimate of probable losses on sale of real estate.

	2004	2003
Real Estate	\$ 1,608	\$ 1,539
Provision for decline in real estate values	31	18
	\$ 1,577	\$ 1,521

14. RELATED PARTY TRANSACTIONS

The Corporation is related in terms of common ownership to all Province of Manitoba created departments, agencies and Crown corporations. The Corporation enters into transactions with these entities in the normal course of business.

15. COMPARATIVE FIGURES

Certain 2003 figures have been reclassified to conform to the 2004 financial statement presentation.

16. ECONOMIC DEPENDENCE

The Corporation is economically dependent on the Province of Manitoba.



Manitoba Agricultural Credit Corporation - Regions & Offices

Northwest Region

Southwest Region

Eastern Interlake Region

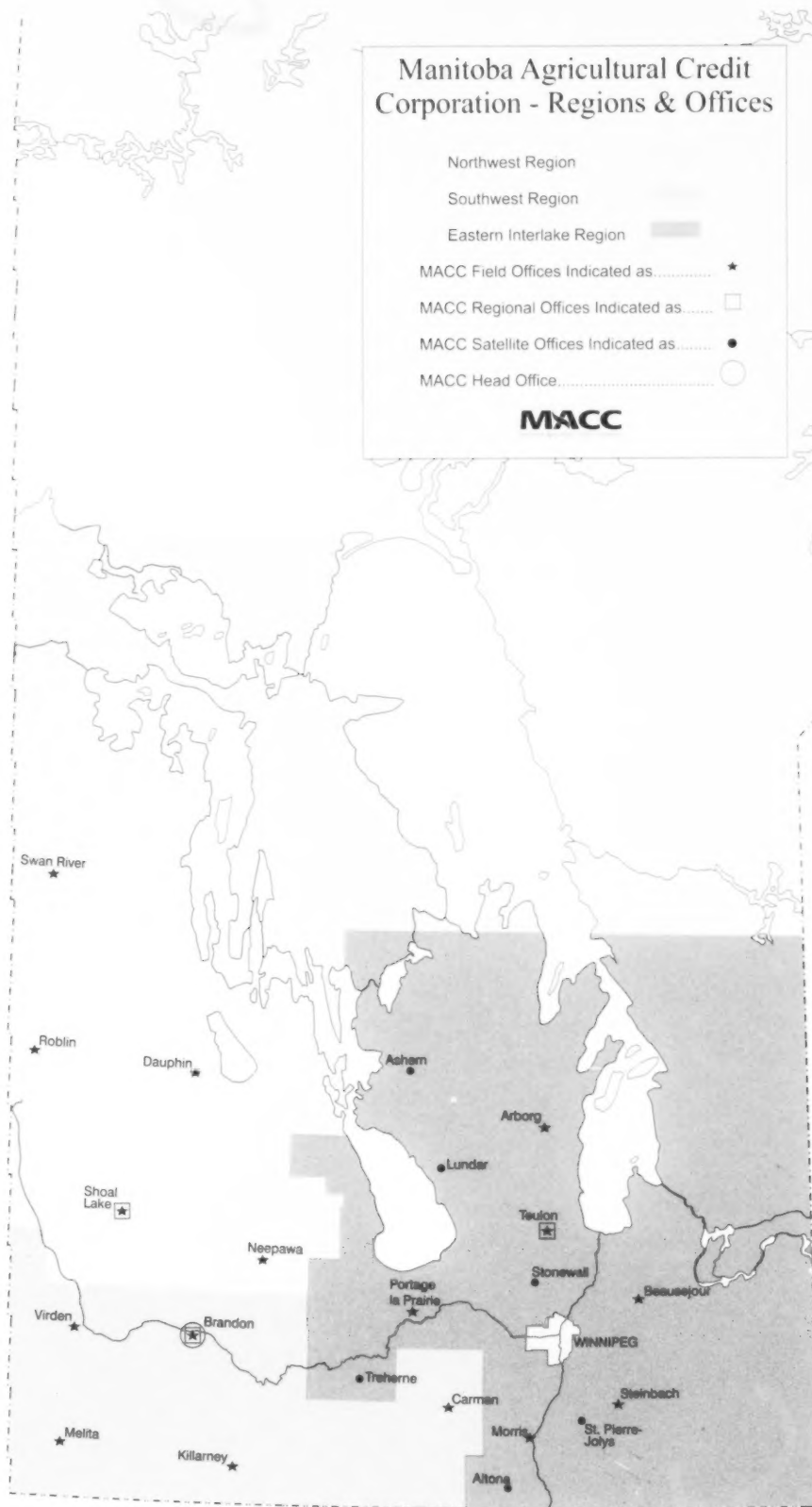
MACC Field Offices Indicated as.....★

MACC Regional Offices Indicated as.....□

MACC Satellite Offices Indicated as.....●

MACC Head Office.....○

MACC



MACC Field Offices

Altona (Satellite) Ag Rep Office, Altona Mall	324-2810
Arborg 317 River Road	376-3305
Ashern (Satellite) Ag Rep Office, Railway Street	768-2686
Beausejour 20 - 1st Street S.	268-6016
Brandon Unit 100 - 1525 1st Street S.	726-6018
Carman 65 - 3rd Avenue N.E.	745-5621
Dauphin 27 - 2nd Avenue S.W.	622-2016
Killarney 411 Broadway Avenue	523-5270
Lundar (Satellite) Ag Rep Office, Main Street	762-5649
Melita 139 Main Street	522-3443
Morris 229 Main Street S.	746-7506
Neepawa 41 Main Street	476-7026
Portage la Prairie 2nd Floor, Tupper Street N.	239-3357
Roblin 117 - 2nd Avenue N.W.	937-6470
St. Pierre-Jolys (Satellite) Municipal Building	433-7749
Shoal Lake 4th Avenue E.	759-4064
Steinbach 242 - 323 Main Street	346-6092
Stonewall (Satellite) 293 Main Street	467-8391
Swan River 120 - 6th Avenue N.	734-3172
Teulon 77 Main Street	886-4412
Treherne (Satellite) 163 Smith Street E.	723-3232
Virden 247 Wellington W.	748-4779